The Effect Of Growth On Firm Profitability And Equity Value

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The Effect Of Growth On Firm Profitability And Equity Value

Mulyanto Nugroho[1]*, Abdul Halik[2]

[1,2] *Faculty of Economics and Business, Universitas 17 Agustus 1945 Surabaya, Surabaya, Indonesia*

ABSTRACT

The purpose of this study is to go over to see if profitability has an effect on firm value, also to see if growth has a result in firm value, and lastly to see if systematic risk has an effect on firm value. The study used fourteen different companies as sub-finance companies. Indonesian investors could gain information on insurance on IDX by practicing Indonesian like every stakeholders can publish their stocks on IDX. The process of sampling is thorough and purposeful. The findings showed that profits had a positive effect on company value. The results also revealed that, a firm which has high profitability and which receives a high growth level must follow high systematic risk in order to produce high value. It is expected that the increased of profitability will have an effect on firm growth and increases the size of a firm's value. Based on the previous findings, the relationship between profitability and growth is shown, and the relationship between growth and profitability is supported.

Key words:
Growth, systematic risk, profitability and firm value

ABSTRAK

Tujuan dari penelitian ini adalah untuk melihat apakah profitabilitas berpengaruh terhadap nilai perusahaan, juga untuk melihat apakah pertumbuhan berdampak pada nilai perusahaan, dan terakhir untuk melihat apakah risiko sistematis berpengaruh terhadap nilai perusahaan. Studi ini menggunakan empat belas perusahaan yang berbeda sebagai perusahaan sub-keuangan. Investor Indonesia dapat memperoleh informasi tentang asuransi di BEI dengan mempraktikkan bahasa Indonesia seperti halnya setiap pemangku kepentingan dapat mempublikasikan sahamnya di BEI. Proses pengambilan sampel dilakukan secara menyeluruh dan terarah. Hasil penelitian menunjukkan bahwa laba berpengaruh positif terhadap nilai perusahaan. Hasil penelitian juga menunjukkan bahwa perusahaan yang memiliki profitabilitas tinggi dan tingkat pertumbuhan yang tinggi harus mengikuti risiko sistematis yang tinggi agar dapat menghasilkan nilai yang tinggi. Peningkatan profitabilitas diharapkan akan berpengaruh pada pertumbuhan perusahaan dan meningkatkan ukuran nilai perusahaan. Berdasarkan temuan sebelumnya, hubungan antara profitabilitas dan pertumbuhan ditunjukkan, dan hubungan antara pertumbuhan dan profitabilitas didukung.

1. INTRODUCTION

The capital market has many long-term assets that are traded. Stocks are among the most popular investment instruments. People believe stocks are a good investment. Stocks are used by companies as an effort to obtain funding, while stocks for investors are considered as the most preferred investment instrument. Investment in Indonesia requires collaboration between PT. Indofood Securities and PT. Danareksa will provide a wide and sustainable investment space. The regular stock exchange trading mechanism has met business principles. Investors are not separated from returns and risks, where most investors expect high returns and minimize risks. No-one has to get the benefits of investing, but they can also avoid the risks. The principle is that there are benefits and risks (Ali, 2008: 7). Pratiwi et al (2014) stated that an investor must consider both the possible return in the future, and the risks that the investor will have to bear. Investors will be able to choose efficient company stocks in order to avoid risks that can harm them such as stock price declines, or company bankruptcies (bankruptcy).

Fahmi (2012) found that the growth ratio is a measurement of the company's relative competitive position in the industry and general economic development. It is a ratio of sales, earnings, earnings per share, dividends, and market price. Kasmir (2016) states that the growth ratio is a comparison of a company's position within its industry and its growth over time. Studies indicate that the growth ratio describes the company's growth from year to year. This ratio is an increase in sales, an increase in profits, an increase in EPS, and an

* *Corresponding author, email address: nugroho@untag-sby.ac.id*

increase in dividends.

Keown (2000) defines system risk as the probability of failure in the organization's operations and environment that can interfere with the company's ability to return on investment. Risk is a fluctuation in results over a certain period. There are two main factors to consider, internal factors and external factors. External factors are more dominant. One of the most dominant risks is that of changes in the demand for goods and services. If the change is positive, market demand increases, and risk decreases. If demand decreases, either because of competition or changes in general economic conditions, risk factors will increase significantly. When the company's risk factors are not growing at the same rate as they were expected to, it is difficult to attract new investors.

The company desires high profit rates with the goal of running their lives and the company should be profitable (profitable). In an unprofitable situation, it will be difficult for the company to obtain a loan from a creditor or investors, there are six metrics in ratio profitability, gross profit margin, net profit margin, operating return on assets, return on equity, return on asset, and operating ratio. The ROA, NPM, and EPS have no influence on the return of stocks.

If firm value is high, then investors may have high expectations for the company's success. High market share prices increase the value of the company, while increasing market confidence in the company's future performance. Maximizing company value is important for a company, and this is what a company should do to maximize value. The increase in the value of the company is in accordance with the owners' wishes, so that the welfare of the owners increases and the company will grow rapidly. Sartono (2010) explains that the selling value of a company is its total profit. The value of a management organization is the excess of its selling value over its liquidation value.

2. THEORETICAL FRAMEWORK AND HYPOTHESES

Previous studies showed that growth of a company has a significant positive effect on profitability. Companies that get more profit show that the company is doing well and can create positive responses from investors and get its stock price up. The company managed its wealth effectively and efficiently to make a profit every period. To enhance profitability, the growth of sales is helpful. Data by Cintya and Suwendra (2016) says growth in sales increases profitability. The results of research by Hartono (2003) and Sari et al (2014). The negative correlation coefficient means that as the sales increase, the net profit will decrease. Profitability growth is not the main factor affecting sales growth. Husnan (2014) showed sales growth affects company profitability. Hypothesis 1 is as follows:

H_1: Growth has a profitability impact.

Company value is calculated as the total revenue minus the cost of goods sold. Company value is the condition of a company that demonstrates public trust in the company after going through an activity for several years, namely from when the company was founded to the present. The excess sales above liquidation value represents the value of the management organization of the company. Study by Kusumajaya found that company growth on firm value had a significant positive effect. Dewi et al. (2014), Pangulu (2014) and Wahyudi and Hartini, respectively (2006). Wardjono (2010) found that company growth has a significant negative effect on firm value. Hypothesis 2 is as follows:

H_2: Growth has an impact on the value of the firm.

Risk is the chance of an adverse event occurring. Risk occurs across firms, so diversification does not eliminate it. The way the risk is measured is beta. Beta risk is the stock price of a company as a result of the general ups and downs of all share prices (Ardiyos: 2001). A previous study by Dhailami (2008) showed that the probability of growth for high-risk companies will decrease. Darwanis et al. (2013) show that systematic risk has no effect on earnings growth. Hypothesis 3 can be formulated as follows:

H_3: Systematic risk influences productivity.

The type of risk used in this study, based on the theory, is systematic risk. Risk of the stock is indicated

by the beta. A security's sensitivity to the overall market depends on its beta (Tendelilin, 2007). The performance of shares of a business entity are not influenced by factors outside the entity's control. If the company had received more capital it would have been able to reduce risk and this would have attracted investors. A study by Murhadi (2008) concluded that systemic risk does not have a significant effect on firm value. Sari (2009) found that firm risk had a positive but insignificant effect on firm value. Hypothesis 4 is as follows:

H_4: Systematic risk affects the value of firms.

Profitability is a ratio that can represent the company's financial performance, which indicates how much money a company will make. High profitability indicates the company has been able to make high returns for shareholders. A previous study by Wijaya and Sedana (2015) has shown that profitability has a positive effect on firm value. Research performed by Sudiani et al (2016), shows that profitability increases firm value in the Indonesian Stock Exchange's consumer goods sector. Hypothesis 5 is as follows:

H_5: Profitability has an impact on the value of the firm.

3. RESEARCH METHOD

The population of this research is 88 financial sector companies listed on the Indonesia Stock Exchange (BEI). There are 14 companies that meet the criteria based on purposive sampling. The details are seen in Table 1. The companies selected as research samples are Asuransi Bina Dana Arta Tbk (ABDA); Asuransi Harta Aman Pratama Tbk (AHAP); Multi Artha Guna Tbk (AMAG) Insurance; Asuransi Bintang Tbk (ASBI); Asuransi Dayin Mitra Tbk (ASDM); Asuransi Jasa Tania Tbk (ASJT); Asuransi Kresna Mitra Tbk (ASMI); Asuransi Ramayana Tbk (ASRM); Asuransi Jiwa Sinarmas MSIG Tbk (LIFE); Lippo General Insurance Tbk (LPGI); Reinsurance Airlines Indonesia Tbk (MREI); Malacca Trust Wuwungan Insurance Tbk (MTWI); Asuransi Tugu Pratama Indonesia Tbk (TUGU) and Victoria Insurance Tbk (VINS). The sample is representative of the entire population because it consists of the insurance sub-sector and the sample has been listed on the IDX during 2017-2019.

Collecting data through documentation techniques by collecting relevant data from various sources from both the Indonesian Capital Market Directory and the Indonesian Stock Exchange Official Website (Source: www.idx.co.id) on the annual financial reports of sub-finance companies. Insurance sector in the period 2017-2019. Conduct a literature study to gather more information on previous theories, concepts and journals used in this research.

This study has four factors that include two exogenous factors (growth and systematized risk) and two endogenous ones (profitability and firm value).

Table 1. Sample Selection Criteria

Sample criteria	Amount
Finance companies that went public or listed on the IDX in 2017-2019	95
Finance companies that did not publish annual reports regularly or were incomplete during the 2017-2019 period	6
The company experienced outliers	1
Finance companies meet the criteria or requirements	88
Finance companies are not included in the insurance sub sector	74

Insurance sub sector finance company as research sample	14

In theory, the independent variables consisting of growth, systematic risk, and profitability at firm value can be described as the following:

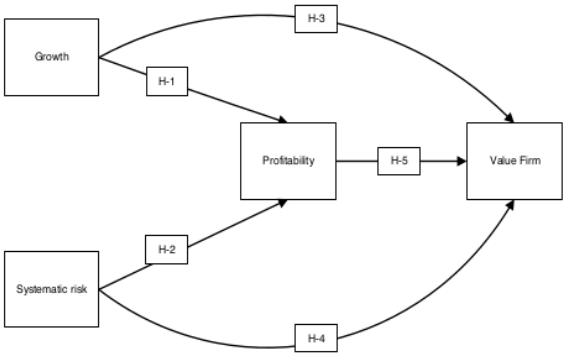

Figure 1. Conceptual framework

This study used SEM (Structural Equation Modeling) and PLS (Partial Least Square) version 3.0 SmartPLS (Partial Least Square) for data analysis. The mathematical method used to estimate a model path based on multiple indicators. Partial least squares is a powerful analysis method because it does not require that observations be taken to a particular scale or the number of observations be small. Regression analysis can be used to adequately prove the theory. The PLS model is used by researchers in forecasting outcome. The model involves linear combinations of several measurements.

4. RESULTS AND DISCUSSION

VALIDITY AND RELIABILITY TEST

If the loading factor value is greater than 0.5, the indicator shall be declared valid (Gendro Wiyono, 2011). The standard value for determining whether an indicator is valid is theoretical confirmatory research. This means that the indicator is valid to measure the construction it forms. The following results are provided by the output of Smart PLS load factor:

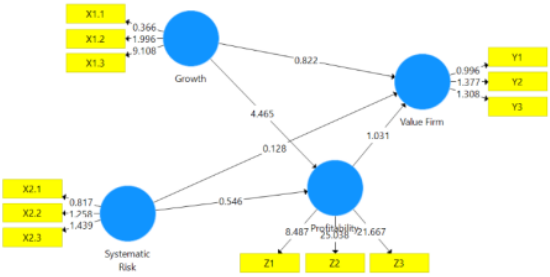

Figure 2.Output Path Coefficient / Algorithm Model 1

Figure 1 clearly shows that only important indicators should be kept in the model in order to achieve good results.

Table 2 Test Indicators Before Elimination

Validity and Reliability	Indicator	Research variable				Information
		X1	X2	Z	Y	
Outer Loadings (Convergent Validity)	X1.1	0.083				Invalid
	X1.2	0.591				Valid
	X1.3	0.938				Valid
	X2.1		-0.349			Invalid
	X2.2		-0.895			Invalid
	X2.3		0.996			Valid
	Z1			0.763		Valid
	Z2			0.970		Valid
	Z3			0.910		Valid
	Y1				-0.595	Invalid
	Y2				0.658	Valid
	Y3				0.661	Valid

Table 2 Test Indicators Before Elimination Cont.

	Indicator	Research Variable				Information
		X1	X2	Z	Y	
Cross Loadings (Discriminant Validity)	X1.1	0.083	0.220	-0.105	-0.037	Valid
	X1.2	0.591	-0.175	-0.272	0.047	Valid
	X1.3	0.938	0.050	-0.641	0.084	Valid
	X2.1	0.077	-0.349	-0.009	-0.071	Invalid
	X2.2	-0.045	-0.895	0.100	-0.050	Invalid
	X2.3	-0.000	0.996	-0.086	0.082	Valid
	Z1	-0.378	-0.184	0.763	-0.422	Valid
	Z2	-0.607	-0.053	0.970	-0.271	Valid
	Z3	-0.690	-0.027	0.910	-0.192	Valid
	Y1	-0.181	0.006	0.274	-0.595	Valid
	Y2	-0.057	0.086	-0.146	0.658	Valid
	Y3	-0.027	0.072	-0.191	0.661	Valid

Table 2 Test Indicators Before Elimination Cont.

Average Variance Extracted (AVE)	Growth (X1)	0.412	Invalid
	Systematic Risk (X2)	0.638	Valid
	Profitability (Z)	0.784	Valid
	Value Firm (Y)	0.408	Invalid
Composite Reliability	Growth (X1)	0.596	Not Reliable
	Systematic Risk (X2)	0.054	Not Reliable
	Profitability (Z)	0.915	Reliabel
	Value Firm (Y)	0.228	Not Reliable

The results of Table 2 can be interpreted based on this evidence, and invalid indicators can be eliminated:

Outer Loadings

1. Growth is calculated via three indicators: sales growth has a value of X1.1 with a load factor of 0.083, net profit growth is calculated by X1.2 with a load factor of 0.591, and earnings growth is calculated by X1.3 with a load factor of 0.938. The minimum reliability requirement for convergent validity is > 0.5, because it is invalid, the sales growth indicators must be removed and the earnings and earnings per share growth indicators are declared valid.
2. Systematic risk includes three metrics, interest with a loading factor of -0.895, inflation with a loading factor of 0.996, and the exchange rate with a loading factor of -0.349 The exchange rate and interest indicators have to be eliminated to ensure that convergent validity is above 0.5, and the inflation rate is declared valid.
3. The profitability of a company is summarized in the net profit margin, the return on assets, the return on stockholders' equity, and the return on stockholders' equity with a loading factor of 0.763, 0.970, and 0.910 respectively. The convergent validity score ≥ 0.5 which means all items are valid.
4. The company has a price-to-book ratio of 0.658, a price-to-earnings ratio of 0.595, and a firm price-to-earnings ratio of 0.661. The PER indicator must be eliminated in accordance with the minimum value of convergent validity > 0.5, but the PBV and NP measures are declared valid.

Discriminant Validity

Four invalid indicators, including X1.1, X2.1, X2.2 and Y1, were highlighted in the results of the discriminant validity test because they did not agree with the latent variable of the parent. An invalid indicator must be removed because a faulty model will result. The next step is to create a model based on that data which incorporates the indicators that are still reliable.

Model After Removing The Indicator

After eliminating invalid responses, the results appear as in the following figure

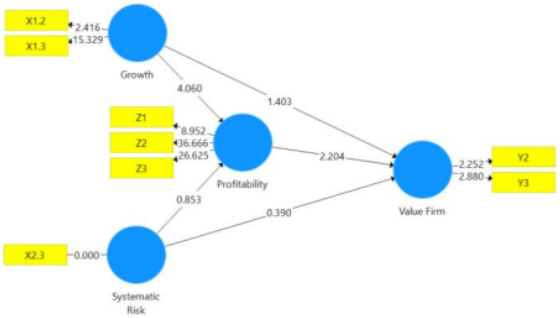

Figure 3.The Output Path Fit Coefficient / Algorithm Model 2

The Algorithm 2 model predicts that all indicators are valid as the PLS is above a specific threshold. Full has been summarized in Table 3.

Table 3 Indicator Test

Validity and Reliability	Indicator	Research Variable				Information
		X1	X2	Z	Y	
Outer Loadings (Convergent Validity)	X1.2	0.608				Valid
	X1.3	0.940				Valid
	X2.3		1.000			Valid
	Z1			0.757		Valid
	Z2			0.971		Valid

	Z3			0.914		Valid
	Y2				0.785	Valid
	Y3				0.778	Valid

Table 3 Indicator Test Cont.

	Indicator	Research Variable				Information
		X1	X2	Z	Y	
Cross Loadings (Discriminant Validity)	X1.2	0.608	-0.163	-0.273	-0.088	Valid
	X1.3	0.940	0.034	-0.643	0.021	Valid
	X2.3	-0.029	1.000	-0.083	0.093	Valid
	Z1	-0.372	-0.176	0.757	-0.376	Valid
	Z2	-0.591	-0.051	0.971	-0.155	Valid
	Z3	-0.681	-0.024	0.914	-0.083	Valid
	Y2	-0.046	0.065	-0.145	0.785	Valid
	Y3	0.025	0.081	-0.187	0.778	Valid

Table 3 Indicator Test Cont.

Average Variance Extracted (AVE)	Growth (X1)	0.627	Valid
	Systematic Risk (X2)	1.000	Valid
	Profitability (Z)	0.784	Valid
	Value Firm (Y)	0.611	Valid
Composite Reliability	Growth (X1)	0.762	Reliabel
	Systematic Risk (X2)	1.000	Reliabel
	Profitability (Z)	0.915	Reliabel
	Value Firm (Y)	0.758	Reliabel

The results from Table 3 showed that the loading factor value is at least 0.5, which means that the indicator was appropriate and proved to be reliable. Once the concentration is below or <0.5, the measurement becomes invalid.

Outer Loadings After Elimination

With all indicators eliminated which still pass the second algorithm, it can be seen in Table 3 that all indicators exceed the outer limit of the outer loading value, which is greater than 0.5. The data used are correct and reliable, so that further analysis can be carried out using the results for making decisions based on the information obtained.

Discriminant Validity

Based on the correlation between cross loading and latency, we can conclude that cross loading and latency are positively correlated. The Smart PLS test revealed that growth, profitability, firm value and systematic risk were all positively related to future value. In addition, the systematic risk factors have an even stronger relationship with the company's performance over financial variables. The volatile profitability variable with three indicator values that indicate profits, increasing systematic risk, and declining firm value. The variable of firm value from the results of elimination means that the firm is owned instead of the others factors (growth, system risk, and profitability).

Average Variance Extracted (AVE)

The next requirement is evaluating the AVE score. Table 3 shows that average variance (AVE) is greater than 0.5 for all variables in the model. All of the AVE scores were greater than 0.5. All of the latent variables

and indicators were deemed valid.

Composite Reliability

Composite reliability function is used to measure the reliability level of various indicators in a unitary variable. If the value is greater than 0.7, the variable can be declared reliable. The results of this study possess a composite reliability value of 0.83. The data presented in Table 3 has greater reliability than 0.7. It can be concluded that all variables meet the reliability of sufficient for analysis purposes.

Hypothesis Testing

If the predicted data matches the predicted numbers for the outer model, the structural model will be tested. After the variables were put, the last action is to determine whether the model is good or poor by looking at how much they contribute in the model.

Table 4 R-Square Value

Endogenous Variable	R-Square	R-Square Adjusted
Profitability	0.412	0.382
The value of the company	0.085	0.014

R-Square is the coefficient of determination which measures the fit of the regression equation, that is, the proportion or percentage of the difference in the dependent variable which can be explained by the independent variable. The value of R2 is between 0-1, and the fit of the model is said to be better if R2 is closer than 1. In Table 4, R2 the exogenous variables affect the endogenous variables as follows.

a. The firm value variable (Y), systematic risk (X2), and profitability (Z) explained about 8.5% of the variation in the firm value variable (Y). All factors other than those studied in this study have an impact on Y of up to 8.5 percent while the remaining 91.5 percent is due to factors not studied in this study.
b. By setting the profitability variable at a value of 0.412, the system risk variable explains 41.2% of the variation in profits. The influence of variable X on variable Z is only 41.2% while the remaining 58.8% is influenced by other variables not studied as part of this research.

Based on the results of bootstrap analysis, we can estimate the magnitude of the relationships between variables and how variables are related to one another. When using a 95 percent confidence level, df = 0.05 and when using T table = 1.68 as the test statistic, the test statistic is used to determine significance. In order to better understand table 5.

Table 5. Hypothesis Testing Results

VARIABEL	ORIGINAL SAMPLE (O)	SAMPLE MEAN (M)	STANDART DEVIATION (STDEV)	T-STATISTICS (|O/STDEV|)	P-VALUES	INFO
Growth→Profitability	0.636	0.655	0.157	4.060	0.000	Significant
Growth→Value firm	0.240	0.298	0.171	1.403	0.161	Insignificant
Systematic risk → Profitability	-0.104	-0.093	0.121	0.853	0.394	Insignificant
Systematic risk → Value firm	0.055	0.071	0.142	0.390	0.697	Insignificant
Profitability →Value firm	0.360	0.416	0.163	2.204	0.028	Significant

By evaluating the impact of growth on benefit the original sample value is found to be 0.636. In the hypothesis test that the t-statistic is 4060, and the results show that the T-statistic> T-table, and a significance

level of 5 percent, this hypothesis can be accepted, and the estimated increase in profitability can be attributed to growth.

Calculate the rate of growth for a firm's value. The current coefficient of error in the original sample was 0.240. In accordance with results from hypothesis testing, it was shown that t-value was less than T-table and with significance level of 5%, so this hypothesis is rejected and the growth variable has a positive and insignificant effect on the firm value variable.

The results of the controlled experiment demonstrated that the original sample mean, -0.104, is statistically significant. The t-statistic is is 0.394, and by the contingency table test the t-table value is < -Ttable and a test statistic value of 5 percent, the null hypothesis can be rejected and this indicates that the systematic risk variable has a negative and insignificant effect on the profitability variable, or the systematic risk variable has a negative but not significant effect on profitability.

The study tested the impact on firm value of systematic risk and found that the original sample value was 0.055. In the hypothesis test, the T-statistic is 0.697 and the results of the hypothesis test show that the hypothesis is rejected by the T-statistic <T-table and a 5 percent significance level, and the systemic risk variable has a positive and insignificant effect on the firm value variable.

Examine the relationship between profitability and firm value, which is 0.360. The t-statistic is 2,204 in the hypothesis test and the significance level is 5 percent, so it is possible to accept this hypothesis. This implies that profitability has an important and positive impact on company value, or that profitability has a significant positive impact on company value in a positive direction.

Discussion

On the basis of the bootstrapping results, exogenous variables have an effect on endogenous variables and intervening variables and then discuss the test results with previous researchers after testing hypothesis 1 to hypothesis 5, who have become the reference for researchers to improve the accuracy of the results of this study:

1. The results of testing the effect of growth on profitability show a positive economic effect as the regression coefficient is positive and the results of hypothesis testing use the T test which the results of T count> T table, so liquidity has a significant effect. The rate of growth is a significant indicator of the profitability, thus it has a significant positive effect. The profitability ratio is a measure of a company's profitability and can be used to provide an estimate of its value. Company growth can have a positive impact on profitability by increasing assets owned which allows the company to be more productive and efficient, which in turn improves profitability. If the company's growth rate is rapid, then the company's profitability is likewise greater. Chotimah (2014) study shows that sustained sales growth leads to better profitability. In Cintya and Suwendra (2016), both sales revenue and profitability are positively correlated. The results of the study do not correspond with the findings of Santoso and Juniarti (2014) and Sari et al (2014) which claim that the negative sales growth has a negative correlation with profitability. I do not think the increase in sales presents a significant impact on profitability.
2. The weighted average growth on firm value is positive because the regression coefficient value is positive and the t-test results show that the t-value is less than the critical t table value, so the weighted average growth on firm value has no significant effect, while the t-test with a 5 percent critical value, then the probability results count larger. The finding that the growth variable was positively correlated with firm value, or the finding that the growth variable was not relevant. Investments are not made directly but there is a need for guidance into market and book value of equity, which uses a price-based proxy for IOS in estimating value. IOS will provide an analysis of the future potential to have wealth. The implementation of the financial management function allows one decision to impact other decisions which eventually has an impact on the firm's value. The evidence shows that firm growth on firm value predicts firm growth on capital. The results of the above-referenced studies do not support Dewi et al. (2014) and Pangulu's conclusions (2014), and Wahyudi and Hartini's claims (2006). Research conducted by Wardjono (2010) indicates that the value of the firm decreases as its size increases.
3. The results of the test of the effect of risk on profitability indicate that there is a negative effect. The regression coefficient is negative and the results of hypothesis testing using the T test that the regression coefficient is less than zero, then the systematic risk variable has no significant effect on profitability, while the probability test with criteria 5 percent, then the calculated probability results are

smaller. A variable that is used to predict the outcome variable is assumed to have no effect on the outcome variable. Investors' fear of small companies. Companies with the lowest risk level are thought to be the most likely to contribute to the best financial returns. When a company is at risk, that company will become more sensitive to changes in the market and find it increasingly difficult to raise capital. Investors involved in the stock market focus primarily on the future profitability of the company. Therefore, before investors invest, they need to consider whether or not the company has a profitable business model. The study of Dhailai (2008) supports the previous findings that there will be a decrease in profits for high-risk companies. The Darwani and Andina studies show that investors have no loss by investing with systematic funds.

4. The result of the effect test between systematic risk on firm value shows a positive effect value, because the coefficient value is positive, and the results of the hypothesis test use the t test that the results of tcount < ttable, so the systematic risk variable has no significant effect, while the probability test with a criterion of 5 percent, then the results smaller count probability. The research in the paper found that the systematic risk variable had a significant impact on firm value or a general conclusion was made that the systematic risk variable was insignificant in relation to firm value. The values taken in in economics are not influenced by economic sense. This shows that high risk is not associated with financial risk in the firm. The risks that are realized by investors are not communicated to them in a way that is measurable or easily understood. Given rationally, investors would want to minimize the risks they bear in doing risk averse, so investors will tend to diversify and this means that the type of risk will no longer be relevant in measuring risk in securities investment. A positive indication that the benefit of the organization will remain intact despite a decrease in risk. The paper investigates the effect of systematic risk in determining a firm's worth. Sari (2009) shows that the higher the systematic risk, the greater the value of the firm.
5. Based on the statistical analysis of the profit variable's effect on the firm value, the regression coefficient is positive, and the T-test shows that the result of the hypothesis test using the t-test that the results of the T tables are greater than the T count, then the profitability variable has a significant effect. greater than. These results showed that profitability did indeed positively influence firm value. If a company's profitability increases, market value will also rise. High profitability indicates that the company will be financially successful in the future, which is why investors are motivated to invest in it. Profitability is a term used to represent the potential amount of money earned by a company or organization. Profits that are accumulated and invested back into the business are net profits after interest and taxes. The greater the amount of profit turned into profit, the greater the ability to pay dividends, and the greater profitability can provide added value to company value which reflects an increase in the value of the price to book value. According to previous research from Nurmalasari (2002), Kusuma (2012), and Wijaya and Sedana (2015), firm profitability is correlated with the firms' overall value. Study results from Sudiani (2016), that the profit of a company has a positive and significant effect on firm value for companies listed on the Indonesia Stock Exchange.

5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

This study examines the relationship between profitability and firm value, and how profitability causes firm value. The argument behind using profitability as a driving factor in firm value is that profitability will lead to significant increases in company value. Profits increase, the company value is getting better and attracting investors, even though there are still elements that can increase company value, it needs to be done optimally, such as growth ratios and systematic risk which must be managed properly.

When the growth variable is statistically measured, it has a positive and significant impact on the profitability of the firm. Lower risk has a significant negative impact on profitability. While the coefficient of the firm value variable is greatly affected by the growth variable, the systematic risk of therapy is not significant. It shows that the company's actions indeed have a positive influence, even though it does its job well.

The results of the study will help investors determine the profitability of their stocks and potential dividends they may earn. While important, it is not the only concern investors should consider when assessing a firm's value. In an investment capacity, a higher dividend payout ratio allows for larger dividend payouts.

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